Report

of the

Examination of

National Guardian Life Insurance Company

Madison, Wisconsin

As of December 31, 2000

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August 10, 2001

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONAL GUARDIAN LIFE INSURANCE COMPANY
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Guardian Life Insurance Company (NGLIC, or "the company",) was conducted in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated in 1909 as the Guardian Life Insurance Company. Its present name was adopted in 1920. Prior to April 1, 1920, policies were written on a nonparticipation basis; subsequent policies were written on a participating basis. The company completed a plan of mutualization in 1949.

The company completed various merger and acquisition transactions during the period under examination. Merger and acquisition activity included the acquisition of two blocks of insurance policies, the purchase of three life insurance companies, and one merger with a mutual insurance company. The mergers and acquisitions were undertaken by the company to achieve growth and expansion into new markets, to gain access to new distribution channels, and to improve its operational efficiencies and its capital structure.

The blocks of business acquired by the company included a block of 11,000 worksite universal life insurance policies acquired from Fort Dearborn Life Insurance Company (FDLIC) and a block of approximately 500 individual life policies from United Wisconsin Life Insurance Company (UWLIC). The FDLIC block was coinsured by the company effective September 1, 1998 and was assumed effective December 31, 1998. The FDLIC block included $17 million of reserves and $3 million of annual premiums. Acquisition of the UWLIC block, consisting of approximately 500 individual life policies, closed on October 29, 1999 effective July 1, 1999. Effective January 1, 1997, NGLIC acquired 100% ownership of NGL American Life Insurance Company (NGLA), which redomiciled to Wisconsin effective January 10, 1997. NGLA had changed its name from Guaranty American Life Insurance Company effective December 12, 1996, in anticipation of its sale to NGLIC. NGLIC acquired Allnation Life Insurance Company (ALIC) effective January 1, 1999, and merged ALIC into NGLA effective March 31, 2000. NGLIC merged with and absorbed Kentucky Home Mutual Life Insurance Company (KHM) effective November 31, 1998, and established Kentucky Home Life Insurance Company (KHL) as a wholly owned insurance subsidiary of NGLIC effective October 1, 1998. Effective November 31, 1999, NGLIC purchased ownership of Settlers Life Insurance Company. Further detailed summary information regarding the company's merger and acquisition activity during the examination period is included in the section of this examination report captioned "Affiliated Companies."

Effective December 15, 1999, NGLIC issued surplus notes in the principal amount of $30,000,000 with the maturity date of December 15, 2002. The notes pay semi-annual interest computed at the rate of 9.32% per annum, with accrued interest payable on the 15th day of June and December. The notes were issued to the State of Wisconsin Investment Board (SWIB) as a negotiated private placement. NGLIC issued the notes for the purpose of capital financing in conjunction with the company's acquisition of Settlers Life Insurance Company. Issuance of the surplus notes was reviewed and approved by the Commissioner, and all interest and principal payments are subject to prior approval by the Commissioner.

In 2000 the company entered into membership in the Federal Home Loan Bank of Chicago (FHLB), and subscribed and paid for capital stock in the FHLB. The FHLB is a quasi-government agency established in 1932 by the Federal Home Loan Bank Act to encourage mortgage loan lending. FHLB members include federal and state chartered thrift institutions, commercial banks, credit unions, and insurance companies. The FHLB provides secured low interest loans to its members, to provide liquidity to members and to facilitate member's mortgage loan lending programs.

The company invests the proceeds of its borrowings from the FHLB in AAA-rated mortgage-backed securities, and can potentially generate profits based on the spread between interest earned on invested assets acquired with borrowed funds and the interest paid on the borrowed funds. As of December 31, 2000 the company had liability of $40,020,800 for borrowed funds and accrued interest due to the FHLB, secured by invested assets of $40 million that were pledged as collateral for the outstanding FHLB loans. These borrowings were repaid in the first quarter of 2001.

The company is licensed the District of Columbia and in the following 41 states:

Alabama	Kentucky	Oklahoma
Alaska	Louisiana	Oregon
Arizona	Maryland	Pennsylvania
Arkansas	Michigan	South Carolina
California	Minnesota	South Dakota
Colorado	Mississippi	Tennessee

Delaware	Missouri	Texas
Florida	Montana	Utah
Georgia	Nebraska	Virginia
Idaho	Nevada	Washington
Illinois	New Mexico	West Virginia
Indiana	North Carolina	Wisconsin
Iowa	North Dakota	Wyoming
Kansas	Ohio	

Most of the company's direct premiums are written in Wisconsin or bordering states. During the year 2000 the company wrote direct premium in the following states:

Wisconsin	$17,447,986	38.8%
Iowa	5,871,989	13.0%
Illinois	4,210,786	9.4%
Minnesota	2,408,732	5.4%
Ohio	1,976,743	4.4%
All Other States	13,101,641	29.0%
Total	$45,017,877	100.0%

The major products marketed by the company include ordinary, term and universal life, individual single premium and flexible premium deferred annuities, individual single premium immediate annuities, and group life and annuities. During the period under examination the company entered into new market segments, including final expense life and critical illness insurance, which the company writes on a direct basis, and the preneed markets, which the company markets primarily through its wholly owned subsidiary NGL American Life Insurance Company.

The company is developing a multiple distribution channel system for marketing its major products that utilizes independent brokers, business alliances, marketing partnerships, and joint ventures. Effective January 1, 2001 the company eliminated its career general agency system, and converted its remaining career agents to independent status. The former career agents of the company established an independent marketing organization named Crossroads Financial Group (CFG) which began operations on January 1, 2001. CFG serves as an independent contractor insurance agency, and markets the company's whole life, universal life, term insurance and annuity products in the company's largest volume upper Midwestern states that were formerly served by the company's career agency force. The company established a plan of decreasing production-based marketing allowance to be paid to CFG over a three-year period to assist CFG in its transition to an independent agency.

In addition to its marketing partnership with CFG, the company utilizes numerous independent insurance brokers who submit business on a regular basis, and additional brokers who submit business less frequently. The company uses third-party marketers in the production of its preneed and senior life business. Critical illness policies, which provide coverage for health condition costs not fully covered by other forms of insurance, is marketed through the company's insurance brokers. Effective February 28, 2001 the company, through its subsidiary NGL Investment Services, Inc. (NGL-IS), purchased a 49% interest in Direct Insurance Marketing Administrators Corporation (DIMA). DIMA services certain senior life policies, and performs telemarketing of some of the company's senior products.

The following chart is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Ordinary life	$15,029,999	$10,818,052	$253,629	$25,594,422
Term life	2,860,370	45,376	452,119	2,453,627
Universal life and interest sensitive life	12,356,354	102,548	936,166	11,522,736
Annuities	12,685,838	10,760	0	12,696,598
Accident and health	2,536,179	0	242,956	2,293,223
Total All Lines	$45,468,740	$10,976,736	$1,884,870	$54,560,606

III. MANAGEMENT AND CONTROL

Board of Directors

The NGLIC board of directors consists of nine members. Three directors are elected to a three-year term of office at each annual meeting of policyholders. Officers are elected at the board of directors annual meeting. The company's President and CEO also serves as a director on other boards of directors in the NGLIC holding company group. The company's President is an employee of the company and does not receive specific consideration for his participation on the NGLIC board of directors. Each director who is not an employee of NGLIC currently receives the following compensation for serving on the board:

$1,500 quarterly retainer
750 for each regular and special board meeting attended
500 for each committee meeting attended (includes the Audit Committee)

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
F. Anthony Brewster Madison, WI	Attorney Neider & Boucher, S. C.	2004
Elizabeth M. Burns Duluth, MN	President Morgan Murphy Stations and Television Wisconsin, Inc.	2003
David J. Hall Madison, WI	Retired Chairman of the Board H & H Industries, Inc.	2002
F. Curtis Hastings Madison, WI	President J. H. Findorff & Son, Inc. & Subsidiaries	2004
John D. Larson Madison, WI	President & Chief Executive Officer National Guardian Life Ins. Co.	2004
Bernhard F. Mautz, Jr. Madison, WI	Chairman of the Board Mautz Paint Company	2003
Andrew J. Policano Madison, WI	Dean, the School of Business University of Wisconsin-Madison	2002
David G. Walsh Madison, WI	Attorney & Partner Foley & Lardner	2003
Judith B. Ward Madison, WI	Executive Associate Director Waisman Center, University of Wisconsin-Madison	2002

Officers of the Company

Each officer of the company is elected at the annual meeting of the board of directors. Each officer serves a one-year term of office. The officers serving at the time of this examination are as follows:

Name	Office	2000 Compensation
John D. Larson	President & Chief Executive Officer	$223,077 *
Spencer L. Francis	Vice President - Director of Finance	152,774 *
Robert A. Mucci	Vice President – Treasurer	145,014 *
Timothy J. Nicholson	Vice President - Director of Marketing	123,321 *
Edwin L Patschke	Vice President - Director of Preneed Operations	111,775 *
Allen W. Rightmyer	Vice President - Director of Operations	37,983 * (1)
Mark L. Solverud	Vice President - Chief Actuary	$157,358 *

* Each NGLIC officer is a employee of NGLIC, and serves as a senior executive of one or more companies within the NGLIC Group in the course of his employment. Each officer of the company is compensated for his services by NGLIC, and no direct compensation is paid by NGLIC affiliates to their respective officers. Management Services Agreements between NGLIC and its affiliates provide that certain affiliates shall pay to NGLIC a monthly executive management fee of agreed upon amount, for duties performed by NGLIC officers that are directly related to the business of the respective affiliates.

(1) Reported data reflect compensation for employment that commenced October 30, 2000.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee
John D. Larson, Chair
F. Anthony Brewster
David J. Hall
F. Curtis Hastings
Bernhard F. Mautz, Jr.
Andrew J. Policano
David G. Walsh
Judith B. Ward
Elizabeth M. Burns (alternate)

Compensation Committee
F. Anthony Brewster, Chair
Elizabeth M. Burns
David J. Hall
F. Curtis Hastings
Bernhard F. Mautz
Andrew J. Policano
David G. Walsh
Judith B. Ward

Audit Committee
Bernhard F. Mautz, Jr., Chair
F. Curtis Hastings
David G. Walsh

Finance Committee
John D. Larson, Chair
F. Anthony Brewster
David J. Hall
F. Curtis Hastings
Bernhard F. Mautz, Jr.
Andrew J. Policano
David G. Walsh
Judith B. Ward
Elizabeth M. Burns (alternate)

IV. AFFILIATED COMPANIES

National Guardian Life Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of NGLIC follows the organizational chart.

Organizational Chart
As of December 31, 2000

- National Guardian Life Insurance Company
  - NGL American Life Insurance Company
  - Settlers Life Insurance Company
    - Settlers Investment Co., LLC (50%)
  - Kentucky Home Life Insurance Company
  - NGL Holdings, Inc.
    - NGL Financial Services, Inc.
    - Southeastern Financial Services, Inc. (1)
    - Kentucky Home Trust Co.
    - NGL Investment Services, Inc.
      - Midwest Realty and Investment Corporation (22.5%)
        - Edgewater Corporation

(1) The name was changed to NGL Investment Management, Inc. (NGL-IM) effective March 23, 2001.

NGL American Life Insurance Company (NGLA)

NGL American Life Insurance Company was originally organized in 1982 as a Nebraska domiciled insurer, under the name Guarantee American Life Company (GALC). GLAC changed its name to NGL American Life Insurance Company on December 12, 1996, in anticipation of its sale to NGLIC. The NGLIC acquisition all of the outstanding capital stock of NGLA closed effective January 1, 1997, and NGLA redomiciled to Wisconsin effective January 10, 1997. Effective March 31, 2000, Allnation Life Insurance Company (ALIC), then a subsidiary of NGLIC, was merged into NGLA. Prior to the merger NGLIC acquired ALIC from Blue Cross/Blue Shield of Delaware.

NGLA is licensed in 30 states and the District of Columbia. NGLA's primary products are single premium insurance policies and annuities that provide funding for funeral costs. As of December 31, 2000, the audited statutory financial statement of NGLA reported total admitted assets of $48,760,921, total liabilities of $34,022,328, and capital and surplus of $14,738,593. Operations for 2000 produced net income of $16,449.

Settlers Life Insurance Company (SLIC)

Settlers Life Insurance Company is a Virginia domiciled life insurance company that was initially organized October 31, 1984. SLIC was formerly owned by The Settlers Companies, Inc., and was placed into receivership May 14, 1999 due to the insolvency of a reinsurer with whom SLIC had entered into a coinsurance treaty. Ownership of SLIC was purchased by NGLIC on November 30, 1999, and SLIC was released from receivership on December 15, 1999. SLIC is licensed in 18 states, with the majority of its business concentrated in Virginia, Tennessee, and North Carolina.

As of December 31, 2000, the audited statutory financial statement of SLIC reported total admitted assets of $217,911,640, total liabilities of $203,560,320, and capital and surplus of $14,351,320. Operations for 2000 produced net income of $4,628,923.

Kentucky Home Life Insurance Company (KHL)

Kentucky Home Life Insurance Company is a stock life insurer that is wholly owned by NGLIC. KHL is domiciled and solely licensed in the State of Kentucky. Effective November 30, 1998, NGLIC absorbed Kentucky Home Mutual Life Insurance Company (KHM) through merger. In conjunction with the KHM merger, NGLIC established KHL as a stock insurance subsidiary for the purpose of continuing certain operations of the prior KHM and to market NGLIC products in Kentucky. As of December 31, 2000, the audited statutory financial statement of KHL reported total admitted assets of $3,978,307, total liabilities of $1,103,573, and capital and surplus of $2,874,734. Operations for 2000 produced net income of $90,562.

NGL Holdings, Inc. (NGL-H)

NGL Holdings, Inc. was incorporated May 18, 1989 as a non-operating subsidiary of NGLIC, and is a holding company for special-purpose subsidiary corporations 100% owned by NGLIC. Effective December 31, 1999, NGLIC contributed the 97.8% interest it owned of Kentucky Home Capital Corporation (KHCC) to NGL-H. KHCC was a holding company for special-purpose subsidiary corporations that was acquired by NGLIC with the merger of Kentucky Home Mutual Life into NGLIC in 1998. KHCC was merged into NGL-H effective April 1, 2000. The remaining minority ownership of KHCC was eliminated as part of that merger.

As of December 31, 2000, the audited consolidated financial statement of NGL-H reported total assets of $9,355,796, total liabilities of $556,897, and stockholder's equity of $8,798,899. Operations for 2000 produced net income of $35,021.

NGL Financial Services, Inc. (NGL-FS)

NGL-FS is 100% owned by NGL-H, and acts as a corporate general agency to market life and health insurance products of other insurance companies that NGLIC or its insurance subsidiaries do not write. The sales agents of NGL-FS are primarily brokers of NGLIC and its other subsidiaries. Products provided through NGL-FS include individual and group health and disability income, Medicare supplement, long term care, and variable products. NGL-FS's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

Kentucky Home Trust Company (KHT)

KHT is 100% owned by NGL-H as a result of the merger of KHCC into NGL-H effective April 1, 2000. The name of KHT is intended to be changed to NGL Trust Company effective March 23, 2001 pending approval of the Kentucky Department of Financial Institutions. KHT provides trust services solely in the State of Kentucky. KHT's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

Southeastern Financial Services (SFS)

SFS is 100% owned by NGL-H as a result of the merger of KHCC into NGL-H effective April 1, 2000. The name of SFS was changed to NGL Investment Management, Inc. (NGL-IM) effective March 23, 2001. NGL-IM acts as a registered investment advisor, providing services to KHT. NGL-IM's net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

NGL Investment Services, Inc. (NGL-IS)

NGL-IS is a wholly owned subsidiary of NGL-H that owns and operates NGLIC real estate properties, excluding the NGLIC home office building, and other selected investments. NGL-IS net stockholder's equity and results from operations for 2000 are included in the year-end 2000 consolidated financial statement data of NGL-H.

Midwest Realty & Investment Corporation (MRIC)

MRIC is 22.5% owned by NGL-IS, and is an investment holding company. MRIC currently owns a hotel and a vacation lodge. As of February 29, 2001, MRIC's audited consolidated financial statement reported assets of $5,313,228, liabilities of $2,339,545, and stockholders' equity of $2,973,683. Operations for the year ended February 29, 2001, produced comprehensive net income of $240,090.

Affiliated Agreements

The company provides to its subsidiaries various managerial, administrative, and business services for the subsidiaries' day-to-day operations. NGLIC has established nine separate management services agreement between the company and one or more of its subsidiaries. Services provided by NGLIC to one or more of its subsidiaries pursuant to the management services agreements include the following:

- executive management services
- financial services including accounting, actuarial, tax and audit
- information technology services including data processing, system software and hardware, and project work
- policy administration services
- legal and compliance services
- Marketing, agency support, and graphic materials services
- investment management, corporate insurance, and office space

NGLIC service fees charged to each of the respective affiliates for the costs of NGLIC services are based on time and cost allocation estimates. The estimates of time and cost allocation are amended by NGLIC periodically as needed, to update the allocation model to reflect changes in services provided to one or more of the subsidiaries. Direct costs incurred by NGLIC that are not covered by the services categories specified in the management services agreements are charged to the affiliate on an hourly basis.

NGLIC and its insurance subsidiaries NGLA, SLIC, and KHL file consolidated federal tax returns, and are parties to a tax allocation agreement. Pursuant to that agreement the tax liability or benefit to each respective insurer shall be the amount that the respective insurer would have paid or received if filed on a separate-return basis with the federal and, if applicable, state tax authorities. Consolidated tax liability is allocated in accordance with provisions of Treasury Regulations for the percentage method, with an election to use a percentage of 100%.

NGLIC and NGL Investment Management, Inc. are parties to an asset management agreement whereby NGL-IM serves as the investment manager of a certain fund of investment assets owned by NGLIC and maintained in a custodial account. Under the agreement, the investment manager shall from time-to-time invest or reinvest the fund assets pursuant to the instruction of NGLIC, and may make written recommendations of investment advice to the company. The agreement provides that NGLIC shall pay an annual management fee as compensation for services provided by NGL-IM, based on a percentage of the assets under management.

Affiliated Companies Subsequent Events

Milwaukee Life Insurance Company (MLIC)

Effective April 1, 2001, NGLIC purchased 100% of the issued and outstanding capital stock of Milwaukee Life Insurance Company (MLIC), a Wisconsin domiciled insurer which was previously a wholly-owned subsidiary of CLARICA Life Insurance Company – US (CLARICA). The purchase transaction closed on June 14, 2001, following approval by the Commissioner of Insurance. NGLIC paid CLARICA $14,694,644 for the capital stock of MLIC, plus interest from the effective date to the closing date. At the purchase effective date, MLIC reflected statutory capital and surplus of $6,897,216. NGLIC intends to merge MLIC into NGLA effective October 1, 2001, subject to regulatory review and approval.

Direct Insurance Marketing Administrators Corporation (DIMA)

Effective February 28, 2001, NGL-IS acquired a 49% interest in DIMA for payment of $697,000 purchase consideration. The remaining 51% of DIMA is owned by a major producer of NGLIC’s senior products. DIMA operates as an administrative processor and call center for NGLIC’s senior products.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The company's reinsurance contracts contained proper insolvency provisions.

The company has reinsurance treaties that cede excess coverages to a small number of reinsurance companies. Many of the reinsurance treaties have existed for more than 20 years. The company's maximum net retention limit for any one life is $400,000 for individual life and $200,000 for group life coverages. The retention on life insurance risks is graded, and decreases based upon the age and rating of the insured. The company's net retention is $8,000 per month for disability income benefits of less than 5 years, $2,000 per month for benefit periods of 5 years, and $1,000 per month for benefit periods greater than 5 years.

The company's net retention limit for accidental death any one risk is $50,000. The company discontinued issuing new disability income policies in 1997, but still reinsures its inforce block of business.

Catastrophic reinsurance is obtained that provides coverage of ultimate net loss in excess of $500,000 from each catastrophic accident. Stop loss reinsurance is maintained by the company for excess claims in a single calendar year in excess of a formula calculated maximum loss.

For life insurance policies with coverages between $400,000 and $1,600,000, coverages in excess of the company's $400,000 retention are automatically assumed by the company's reinsurers. On contract applications for which the company intends either to retain no risk or to retain less risk than would customarily be appropriate retention under the company's excess of loss reinsurance treaties for the policy age and rating, the company submits the policy for facultative reinsurance coverages. The company's retention on group life policies varies by size of insured group, with the maximum retention on group business being $200,000.

The company's assumed reinsurance is limited to pooled group life insurance and to affiliated assumptions. The pooled reinsurance consists of the Federal Employees Group Life Insurance (FEGLI), the Servicemen's Group Life Insurance (SGLI), and the Wisconsin Employees

Group Life Insurance (WEGLI) pools. The company offers FEGLI and SGLI conversion policies, which are 100% ceded by the company.

The company assumes 100% of KHL net retained direct business after all external KHL reinsurance, and the company has ceded 50% of certain supplemental contracts to KHL.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

National Guardian Life Insurance Company
Assets
As of December 31, 2000

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bonds	$519,576,305	$0	$740,000	$518,836,305
Stocks:				
Preferred stocks	14,704,935			14,704,935
Common stocks	82,104,413	(5,492,854)		76,611,559
Mortgage loans on real estate:				
First liens	62,557,629			62,557,629
Real estate:				
Occupied by the company	3,007,901			3,007,901
Investment real estate	2,513,010			2,513,010
Policy loans	22,442,605			22,442,605
Collateral loans				
Cash	43,080,873			43,080,873
Short-term investments	17,561,019			17,561,019
Other invested assets	9,316,682			9,316,682
Reinsurance ceded:				
Amounts recoverable from reinsurers		251,361		251,361
Electronic data processing equipment	219,372			219,372
Guaranty fund receivable	90,170			90,170
Life premiums and annuity considerations deferred and uncollected		4,149,712		4,149,712
Accident and health premiums due and unpaid		(504)		(504)
Investment income due and accrued		10,513,007		10,513,007
Receivable from parent, subsidiaries and affiliates	1,959,837			1,959,837
Other assets nonadmitted:				
Agents' balances	1,449,023		1,449,023	
Bills receivable	33,747		33,747	
Furniture and equipment	786,759		786,759	
Cash advanced to or in hands of officers or agents	25,031		25,031	
Loans on personal security, endorsed or not	55,656		55,656	
Write-ins for nonadmitted assets:				
Agents credit balances	37,457		37,457	
Disallowed IMR		598,061	598,061	
Prepaid insurance	68,157		68,157	
Write-ins for other than invested assets:				
Accounts receivable	100,629			100,629
Goodwill—acquired Insurance in force	4,604,803			4,604,803
Cash value of officers life insurance		1,108,078		1,108,078
Total Assets	$786,296,012	$11,126,861	$3,793,890	$793,628,983

National Guardian Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2000

Aggregate reserve for life policies and contracts	$575,537,763
Aggregate reserve for accident and health policies	8,758,876
Supplementary contracts without life contingencies	8,579,389
Policy and contract claims:	
Life	3,182,842
Accident and health	22,000
Policyholders' dividend and coupon accumulations	19,232,715
Policyholders' dividends and coupons due and unpaid	8,229
Provision for policyholders' dividends and coupons payable in following calendar year:	
Apportioned for payment to December 31, 2000	2,430,000
Coupons and similar benefits	1,000
Premiums and annuity considerations received in advance	56,276
Liability for premium and other deposit funds:	
Policyholder premiums	345,458
Other contract deposit funds	18,303,695
Policy and contract liabilities not included elsewhere:	
Other amounts payable on reinsurance assumed	122
Commissions to agents due or accrued	213,896
General expenses due or accrued	273,332
Taxes, licenses, and fees due or accrued, excluding federal income taxes	351,798
Federal income taxes due or accrued	1,424,106
Unearned investment income	29,222
Amounts withheld or retained by company as agent or trustee	230,892
Amounts held for agents' account, including agents' credit balances	171,484
Remittances and items not allocated	1,051,853
Liability for benefits for employees and agents if not included above	894,692
Borrowed money and interest thereon	40,020,800
Dividends to stockholders declared and unpaid	
Miscellaneous liabilities:	
Asset valuation reserve	8,444,152
Payable to parent, subsidiaries and affiliates	459,746
Write-ins for liabilities:	
Accounts payable	19,551
Post retirement benefits other than pension	1,148,238
Total Liabilities	691,192,125
Write-ins for other than special surplus funds:	
Permanent surplus	500,000
Surplus notes	30,000,000
Write-ins for special surplus funds:	
AVR maximum	6,355,766
Unassigned funds (surplus)	65,581,092
Surplus	102,436,858
Total Liabilities, Surplus, and Other Funds	$793,628,983

National Guardian Life Insurance Company
Summary of Operations
For the Year 2000

Premiums and annuity considerations	$ 54,560,606
Deposit-type funds	2,464,451
Considerations for supplementary contracts with life contingencies	2,935,351
Considerations for supplementary contracts without life contingencies and dividend accumulations	4,290,355
Net investment income	46,248,683
Amortization of interest maintenance reserve	(192,935)
Commissions and expense allowances on reinsurance ceded	226,825
Miscellaneous income:	
Write-ins for miscellaneous income:	
Miscellaneous income	381,394
Release of Deferred Compensation Liability	1,131,548
Total income items	112,046,276
Death benefits	23,673,128
Matured endowments	586,209
Annuity benefits	6,688,126
Disability benefits and benefits under accident and health policies	1,198,160
Coupons, guaranteed annual pure endowments and similar benefits	233
Surrender benefits and other funds withdrawals	74,384,736
Group conversions	17,172
Interest on policy or contract funds	636,843
Payments on supplementary contracts with life contingencies	2,368,677
Payments on supplementary contracts without life contingencies and of dividend accumulations	6,178,754
Accumulated coupon payments	25,070
Increase in aggregate reserve for life and accident and health policies and contracts	(32,194,760)
Increase in liability for premium and other deposit funds	425,777
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	441,444
Subtotal	84,429,569
Commissions on premiums, annuity considerations, and deposit type funds	4,814,700
Commissions and expense allowances on reinsurance assumed	300,064
General insurance expenses	13,548,833
Insurance taxes, licenses, and fees excluding federal income taxes	1,456,637
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	703,711
Write-in for deductions:	
Miscellaneous losses	212,559
Amortized goodwill	463,296
Retaliatory fees and penalties	3,683
Total deductions	105,933,052
Net gain from operations before dividends to policyholders and federal income taxes	6,113,225
Dividends to policyholders	2,382,083

Net gain from operations after dividends to policyholders and before federal income taxes	3,731,141
Federal income taxes incurred (excluding tax on capital gains)	190,306
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	3,540,835
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	667,047
Net income	$4,207,883

National Guardian Life Insurance Company
Cash Flow
As of December 31, 2000

Premiums and annuity considerations	$53,786,711		
Deposit-type funds	2,464,451		
Considerations for supplementary contracts with life contingencies	2,935,351		
Considerations for supplementary contracts without life contingencies and dividend accumulations	4,290,355		
Net investment income	50,218,596		
Commissions and expense allowances on reinsurance ceded	227,407		
Write-ins for miscellaneous income:			
Miscellaneous income	1,512,942		
Increase in Other Deposit Funds	780,007		
Total		$116,215,820	
Death benefits	23,720,946		
Matured endowments	586,209		
Annuity benefits	6,994,200		
Disability benefits and benefits under accident and health policies	1,070,474		
Coupons, guaranteed annual pure endowments and similar benefits	733		
Surrender benefits and other fund withdrawals	74,384,736		
Group conversions	17,388		
Interest on policy or contract funds	636,843		
Payments on supplementary contracts with life contingencies	2,368,677		
Payments on supplementary contracts without life contingencies and of dividend accumulations	6,450,347		
Accumulated coupon payments	25,070		
Subtotal	116,255,623		
Commissions on premiums, annuity considerations, and deposit type funds	4,722,632		
Commissions and expense allowances on reinsurance assumed	300,064		
General insurance expenses	13,607,482		
Insurance taxes, licenses and fees, excluding federal income taxes	1,158,397		
Write-ins for deductions:			
Miscellaneous losses	216,242		
Decrease in Other Deposit Funds	425,777		
Dividends paid to policyholders	2,366,268		
Federal income taxes (excluding tax on capital gains)	1,,043,558		
Total deductions		140,096,043	
Net cash from operations			$(23,880,224)
Proceeds from investments sold, matured, or repaid:			
Bonds	58,245,438		
Stocks	26,062,381		
Mortgage loans	5,344,768		
Total investment proceeds	89,652,587		

Net tax on capital gains	438,882		
Total		89,213,705	
Cost of investments acquired (long-term only):			
Bonds	18,340,021		
Stocks	16,424,120		
Mortgage loans	3,840,000		
Real estate	127,272		
Other invested assets	9,312,500		
Total investments acquired		48,043,913	
Net increase (or decrease) in policy loans and premium notes		(571,139)	
Net cash from investments			41,740,931
Cash provided from financing and miscellaneous sources:			
Borrowed money	40,020,800		
Other cash provided	301,939		
Total		40,322,739	
Cash applied for financing and miscellaneous uses:			
Interest on indebtedness	2,796,000		
Other applications	3,371,182		
Total		6,167,182	
Net cash from financing and miscellaneous sources			34,155,557
Net change in cash and short-term investments			52,016,264
Reconciliation			
Cash and short-term investments, December 31, 1999			8,625,626
Cash and short-term investments, December 31, 2000			$60,641,890

National Guardian Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2000

Assets		$793,628,983	
Less investment in insurance subsidiaries in excess of subsidiaries' security surplus		12,662,465	
Less liabilities		691,192,125	
Adjusted surplus			$89,774,393
Annual premium:			
Individual life and health	27,869,505		
Factor	15%		
Total		$4,180,426	
Group life and health	15,586,875		
Factor	10%		
Total		$1,558,687	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		6,416,957	
Compulsory surplus (subject to a $2,000,000 minimum)			12,156,070
Compulsory surplus excess or (deficit)			$77,618,323
Adjusted surplus			$89,774,393
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%)			16,896,937
Security surplus excess or (deficit)			$72,877,456

National Guardian Life Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1996	**1997**	**1998**	**1999**	**2000**
Surplus, beginning of year	$52,384,859	$64,523,251	$80,991,906	$95,292,114	$101,499,466
Net income	4,156,698	7,850,396	2,193,232	4,451,749	4,207,883
Change in net unrealized capital gains or (losses)	3,833,441	4,810,881	2,336,809	(24,131,005)	1,709,094
Change in nonadmitted assets and related items	1,119,543	(1,422,180)	1,221,489	278,742	(337,182)
Change in reserve on account of change in valuation basis	4,256,918				
Change in asset valuation reserve	(1,416,208)	5,229,558	(3,119,946)	9,952,332	(4,602,398)
Change in surplus notes				30,000,000	
Write-ins for gains and (losses) in surplus:					
Change in contingent liability for taxes	208,000				
Goodwill rightdown				(14,344,466)	
Prior year adjustments			418,331		
Surplus derived from merger			11,250,293		
Surplus, end of year	$64,543,251	$80,991,906	$95,292,114	$101,499,466	$102,436,862

The reported 1998 Surplus Change Derived from Merger represents the net surplus derived by the company from its 1998 merger with KHMLIC. In 1998 the company correctly reported the merger on an equity basis in the year of merger and restated its equity accounts for prior-years. The above analysis of surplus data reflects non-restated pre-merger surplus data for 1996 and 1997. The 1999 surplus changes reflect the surplus effect of the company's 1999 acquisition of Settlers Life Insurance Company. Further examination comment, related to the 1999 Iris ratio number 1, is included in the following section of this report captioned "Insurance Regulatory Information System."

National Guardian Life Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2000

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	**1996**	**1997**	**1998**	**1999**	**2000**
#1	Net change in capital & surplus	23%	25%	3%	(25)%*	1%
#1A	Gross change capital & surplus	23%	25%	3%	7%	1%
#2	Net income to total income	3%	7%	2%	4%	4%
#4	Adequacy of investment income	191%	186%	153%	182%	165%
#5	Non-admitted to admitted assets	0%	1%	0%	1%	0%

#6	Total real estate & mortgage loans to cash & invested assets	12%	11%	11%	9%	9%
#7	Total affl investments to capital & surplus	10%	22%	34%	48%	46%
#8	Surplus relief	0%	0%	0%	0%	0%
#9	Change in premium	12%	(14)%*	2%	(2.8)%	(7)%
#10	Change in product mix	1%	1.7%	1%	2%	1.6%
#11	Change in asset mix	1.2%	0.5%	0.3%	0.7%	1.2%
#12	Change in reserving ratio	(10.6)%	(7)%	44%*	-43%*	(8)%

The unusual IRIS ratio result for ratio number 1 in 1999 was the result of the company's purchase of SLIC effective December 31, 1999. At the time of the acquisition, the company wrote off $14.3 million of goodwill in excess of statutory limits paid as purchase consideration, and recognized $20 million of unrealized losses that were the result of adjustments to SLIC's balance sheet. Concurrent with the purchase of SLIC, the company issued a surplus note of $30 million, and surplus increased in 1999 by $6.2 million, or 6.5%. However, the calculation method of the IRIS ratio disregards an insurer's change in surplus arising from surplus note transactions, resulting in the large negative result for the ratio in 1999.

The unusual IRIS ratio result for ratio number 9 in 1997 was due to a 14% decline in net premiums written during 1997. In 1997 the company business strategy was focused on decreasing the company's interest-sensitive annuities relative to its non-interest sensitive products. The company implemented modifications in its interest crediting strategy that resulted in significantly reduced 1997 annuity sales compared to the prior-year.

The unusual IRIS ratio results for ratio number 12 in 1998 and 1999 were due to effect of a 1998 assumption reinsurance transaction whereby NGLIC acquired a block of Universal Life polices from Fort Dearborn Life Insurance Company effective November 30, 1998. The company's overall 1998 reserves, including the transfer of reserves under the assumption reinsurance, increased by 44%. Excluding the assumption transaction from 1998 analysis, the 1998 reserves increased by 8% compared to the prior-year. The year-to-year changes in reserves in 1998 and 1999 caused by the 1998 assumption reinsurance transaction resulted in the exceptional analytical ratio results for ratio number 12.

Growth of National Guardian Life Insurance Company

Year	Admitted Assets	Liabilities	Surplus
1996	$753,100,559	$677,127,457	$ 64,543,251
1997	773,996,460	681,754,264	80,991,906
1998	793,986,615	698,791,034	95,292,114
1999	781,271,086	679,771,625	101,499,462
2000	793,628,983	691,192,125	102,436,862

Life Insurance In Force (in thousands)

Year	Gross Direct And Assumed	Ceded	Net
1996	$7,642,383	$146,433	$7,495,950
1997	7,813,832	167,453	7,646,379
1998	8,466,887	409,482	8,057,405
1999	8,875,261	468,256	8,407,005
2000	8,813,148	393,090	8,420,058

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1996	$2,694,090	$1,418,809	$548,708	$991,659	119.9%
1997	2,958,539	1,633,873	570,225	921,510	119.3%
1998	2,833,930	2,213,767	309,410	515,806	119.3%
1999	2,575,104	771,610	200,338	466,756	74.8%
2000	2,293,223	1,503,318	181,609	369,637	79.3%

NGLIC's total life insurance in force increased by 26% since the prior examination, including a 168% increase in term life insurance in force and a 21% increase in total group life risks in force. The company had erratic sales and net gain from operations year-to-year during the period, and experienced an overall trend of flat or declining premium income. Total annual new business issued in 2000 was 79% greater than new business issued in 1995, with the greatest increase occurring in the company's new ordinary term life business. During the past three years company management has focused on making strategic changes in the company's business plan, and has engaged in merger and acquisition activity, entry into new business product lines, and redesign of the company's marketing and product distribution systems.

Reconciliation of Surplus per Examination

The examination determined that there were no material exceptions to the account balances reported by the company in its 2000 statutory annual statement, and the examination made no reclassifications of account balances or adjustments to surplus. As of December 31, 2000, the company had surplus of $102,436,862.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The company's prior examination report contained eight specific comments and recommendations regarding financial matters and sixteen comments and recommendations regarding market conduct matters. The scope of the current examination report is limited to matters of financial regulation, and the report does not include a review of prior examination comments and recommendations pertaining to market conduct regulation. The Commissioner's review of the company's compliance with the prior examination market conduct findings is performed independently of the current financial examination.

Comments and recommendations contained in the last examination report that pertained to financial regulation matters, and subsequent corrective actions taken by the company during the period under examination, are summarized as follows:

1. Page 28 - Bonds—It is recommended that the company continue to prudently liquidate its holdings of inverse floater and interest-only collateralized mortgage obligations as opportunities arise. It is also recommended that the company not acquire additional inverse floater and interest-only collateralized mortgage obligations except as needed to fill out a holding on a particular security to facilitate the liquidation of its inverse floater and interest-only collateralized mortgage obligations.

   Action—Compliance.

2. Page 28 - Bonds—It is recommended that the company include information in future Management Discussion and Analysis which will provide a fuller understanding of the company's asset quality, insurance operations, and financial condition.

   Action—Compliance.

3. Page 28 - Nonadmitted Assets—It is recommended that the company review its miscellaneous receivables and properly report any nonadmitted assets.

   Action—The company is in substantial compliance except for immaterial receivable amounts for loans provided to employees to finance the purchase of computers. Additional examination comment and recommendation is included in the findings section of this examination report captioned "Nonadmitted Assets."

4. Page 29 - Reserve Assumptions—It is recommended that the company establishes a procedure to routinely monitor allowable reserve assumptions and to ensure that its reserve assumptions comply with legal requirements.

   Action—Compliance.

5. Page 30 - Reinsurance Treaties—It is recommended that the company takes steps to ensure that its reinsurance files are kept up to date, includes all treaties with appropriate signatures reflecting the intended understanding between the company and its reinsurers, and containing provisions consistent with its financial reporting practice.

Action—Compliance.

6. Page 30 - Group Life Insurance Reserves—It is recommended that the company establish a procedure for setting up IBNR for its group disabled lives in the future.

Action—Compliance.

7. Page 31 - Deferred Annuities—It is recommended that the company comply with NAIC Actuarial Guideline 33 when determining minimum CARVM reserves for individual annuity contracts, as required by s. 623.06 (4m), Wis. Stat.

Action—Compliance.

8. Page 31 - Other Reserve Deficiencies—It is recommended that the company revise its procedures used in calculating the reserve for non-deduction of deferred fractional premiums and return of premiums at the death of the insured and the reserve for immediate payment of claims to account for the total incurred obligation rather than a single year's payments.

Action—Compliance.

Summary of Current Examination Results

Custody of Assets

The company is party to a 1984 revocable investment managementt trust agreement with a trustee bank that appointed the bank as the custodian of company assets that are assigned and held in the trust. The trust agreement is silent with regard to the trustee custodian's fiduciary duty to the company in the event of the loss or theft of company assets held by the custodian. The company is also party to a custodial agreement with a bank for which the custodial agreement language is not adequate. The custodial agreement contains conflicting provisions regarding the custodian's obligation to indemnify the company for special, indirect, consequential or speculative damages, with respect to indemnification of the company for the value of any loss of rights or privileges resulting from the custodian's loss of company securities. It is recommended that the company ensure that the conflicciting provisions are corrected and that all of its custodial agreements require the custodian to indemnify the insurer for any lost securities, in conformity to the suggested indemnification language provided in Part 1, Section IV(H) of the NAIC Examiner's Handbook.

Pledged Assets

As of December 31, 2000 the company owned $40 million of securities that were pledged as collateral pursuant to the company's line of credit with the Federal Home Loan Bank. The company correctly disclosed the collateralized securities in the annual statement general interrogatory number 15, but did not make required disclosure in the annual statement asset schedules. Annual statement instructions require that assets owned by an insurer that are not under the exclusive control of the insurer be identified in the asset schedules by placing appropriate symbols to the far right of the description column of each such asset. It is recommended that the company properly designate in its statutory annual statement asset pages each investment security that is pledged as collateral or otherwise not under exclusive control of the company, in compliance with NAIC Annual Statement Instructions— Life, Accident and Health.

Bonds

Examination review of the data reported for bond assets in the company's 2000 statutory annual statement, Schedule D, Part 1 determined that the company incorrectly reported compound interest rates as the effective interest rate data that was reported in Schedule D, Part 1, column 15. The reported data should have been based on nominal effective interest. The error was due to incorrect coding of the cell in the company's Schedule D software package that generated the data reflected in Schedule D, Part 1, column 15.

The examiners verified that the noted exception effected only the interest rate data reported in column 15, and that the reported bond amortizations and bond statement values for the company's bond assets were calculated using nominal effective interest rates and were properly valued in all material respects. The company undertook corrective action during the time of fieldwork for this examination. It is recommended that the company report nominal effective interest rate date in the appropriate column of its statutory annual statement Schedule D Part 1 reports, in accordance with <u>NAIC Annual Statement Instructions—Life, Accident and Health.</u>

As of year-end 2000 the company owned one bond issue that was in default and that was classified as a NAIC Class 6 security. The company reported a statement value for the defaulted bond equal to the year-end market value of the security, in accordance with the requirements of the SVO for distressed bonds that are reported on the SVO system. However, the subject security was deleted from the SVO data system in 2000, and the company should have reported a statement value of $0 for the security. The reporting error was not material to the financial statements of the company, and the examiners waived making an adjustment to surplus. It is recommended that the company value distressed bond assets in accordance with the requirements provided in the <u>Purposes and Procedures Manual of the NAIC Securities Valuation Office.</u>

Other Invested Assets

The company's Schedule BA assets included two surplus note assets owned by the company at year-end 2000. The NAIC Securities Valuation Office, Valuation of Securities Manual, provides that an insurer that owns a capital or surplus debenture that is rated by a securities rating organization must file semi-annually a copy of the most recent rating letter issued by the rating organization. Examination inquiry determined that the company has not made the appropriate fillings as required by the NAIC. It is recommended that the company file required ratings documentation for its capital or surplus debenture assets with the NAIC Securities Valuation Office, as provided in Part Twelve of the NAIC Valuation of Securities Manual.

Nonadmitted Assets

The company recorded as an admitted asset an aggregate write-in for miscellaneous accounts receivable. The miscellaneous receivable assets included loans provided by the company to some of its employees to finance employee private purchases of home computers. The loans represent unsecured receivables and are not an admissible asset for an insurer. The aggregate total amount of the loans that were incorrectly classified as an admitted asset is not material to the reported financial statements of the company.

The prior examination determined that the company had several admitted asset items including prepaid expenses, supplies, and employee loans that would more properly be reported as non-admitted, and recommended that the company review its miscellaneous receivables and properly report any nonadmitted assets. Current examination review determined that the company is in substantial compliance with the recommendation, and now reports as non-admitted all of the assets subject to the prior recommendation except for the employee computer loans. The failure to non-admit the computer loans cited in the prior recommendation appears to be due to inadvertent oversight. It is again recommended that the company review its miscellaneous receivables and properly report any nonadmitted assets.

Business Interruption Contingency Plan

The company has a business interruption contingency plan, but the current plan is out of date and is in the process of being updated. Examination review of preliminary documentation of the updated plan determined that the plan appears to be limited solely to the company's information technology function, and does not address issues pertaining to other critical business functions and operations.

Prudent business practice requires that an insurer establish and maintain a formalized business interruption contingency plan that addresses all of the critical business functions and operations of the company. The plan should encompass sufficient elements of planning, preparation, and response to minimize the negative impact to the company operations from a business interruption event. It is recommended that the company establish a business interruption contingency plan to address the business continuation needs of the company's critical functions and operations. To ensure that the plan remains current, it should be reviewed, tested, and updated at least annually.

Information Technology

Review of the company's information technology function determined that the company's information technology control environment appears to adequately secure the company's data, except for the following issues. It was indicated that each of the company's computer programmers can promote program code changes to production. There is a report of changes that a manager informally reviews, but there is no formal review to ensure that only authorized code changes are promoted to production. The company does not perform a formal periodic review to ensure that an employee's system access is limited to those applications and data that the employee needs to perform his assigned job responsibilities. The company does not have a formal procedure to monitor logical access violations to identify potential security issues. Certain employees who have access to the computer room do not appear to have a business purpose for such access.

Proper computer security practices require an insurer to establish physical and logical controls within its IT function. It is recommended that the company implement physical and logical computer systems security to address the following issues, including the establishment of procedures to provide the following controls:

1. Capability to promote computer code changes into production be limited to one or two designated employees,

2. A periodic review, no greater than annual, be performed to ensure that a given individual's system access is limited to those applications and data necessary to perform his job duties,
3. A formal procedure be established to monitor logical security violations, and
4. The company limit computer room access to those individuals who have a business purpose for entering the computer room.

VIII. CONCLUSION

National Guardian Life Insurance Company is a Wisconsin domiciled insurer originally incorporated in 1909 under the name the Guardian Life Insurance Company. The present name was adopted in 1920. NGLIC owns and operates various insurance and non-insurance businesses through the NGLIC Insurance Group. NGLIC is currently licensed in 41 states and the District of Columbia, and is a direct writer of individual and group insurance products, including ordinary and interest-sensitive whole life, term insurance, single and flexible premium deferred annuities, immediate annuities, disability income, and group life and annuities.

The examination made eight recommendations, and did not make any reclassifications or adjustments of account balances or surplus reported by the company in its year-end 2000 statutory financial statement. The examination determined that as of December 31, 2000 the company had total admitted assets of $793,628,983, total liabilities of $691,192,125, and total capital and surplus of $102,436,862.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 31 - **Custody of Assets**—It is recommended that the company ensure that that the conflicting provisions are corrected and that all of its custodial agreements require the custodian to indemnify the insurer for any lost securities, in conformity to the suggested indemnification language provided in Part 1, Section IV(H) of the NAIC Examiner's Handbook.

2. Page 31 **Pledged Assets**—It is recommended that the company properly designate in its statutory annual statement asset pages each investment security that is pledged as collateral or otherwise not under exclusive control of the company, in compliance with NAIC Annual Statement Instructions— Life, Accident and Health.

3. Page 32 **Bonds**—It is recommended that the company report nominal effective interest rate date in the appropriate column of its statutory annual statement Schedule D Part 1 reports, in accordance with NAIC Annual Statement Instructions—Life, Accident and Health.

4. Page 32 **Bonds**—It is recommended that the company value distressed bond assets in accordance with the requirements provided in the Purposes and Procedures Manual of the NAIC Securities Valuation Office.

5. Page 33 **Other Invested Assets**—It is recommended that the company file required ratings documentation for its capital or surplus debenture assets with the NAIC Securities Valuation Office, as provided in Part Twelve of the NAIC Valuation of Securities Manual.

6. Page 33 **Non Admitted Assets**—It is again recommended that the company review its miscellaneous receivables and properly report any nonadmitted assets.

7. Page 34 **Business Interruption Contingency Plan**—It is recommended that the company establish a business interruption contingency plan to address the business continuation needs of the company's critical functions and operations. To ensure that the plan remains current, it should be reviewed, tested, and updated at least annually.

8. Page 34 **Information Technology**—It is recommended that the company implement physical and logical computer systems security to address the following issues, including the establishment of procedures to provide the following controls:

    1. Capability to promote computer code changes into production be limited to one or two designated employees,
    2. A periodic review, no greater than annual, be performed to ensure that a given individual's system access is limited to those applications and data necessary to perform his job duties,
    3. A formal procedure be established to monitor logical security violations, and
    4. The company limit computer room access to those individuals who have a business purpose for entering the computer room.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Richard Harlow Anderson	Insurance Examiner
Andrew Fell	Insurance Examiner
Karla M. Harris	Insurance Examiner
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Respectfully submitted,

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